MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BFN2224 – FINANCIAL MARKETS AND INSTITUTIONS

(All sections / Groups)

25 OCTOBER 2018
9:00 a.m. – 11:00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **2 pages** with **4 Questions** only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (25 MARKS)

a. How can economies of scale help explain the existence of financial intermediaries?

(5 marks)

b. What is a financial crisis? Explain.

(5 marks)

c. How does the Agency theory help to explain the nature of a financial crisis? Please give examples to illustrate your answers.

(15 marks)

QUESTION 2 (25 MARKS)

a. Explain why price stability is the most important goal of monetary policy.

(10 marks)

b. What are the other goals beside the one mentioned in (a) above? Explain each of them in details.

(15 marks)

QUESTION 3 (25 MARKS)

a. You are considering buying a bond that matures 10 years from today. The par value of the bond is RM10,000 and the coupon rate is 10%. If the current market interest rates are 5%, what is the bond price today if the coupon is paid annually?

(10 marks)

b. Consider the following cash flows. All market interest rates are 10%.

Year	**0**	**1**	**2**	**3**	**4**
Cash Flow		600	700	800	1000

i. What price would you pay for these cash flows? What total wealth do you expect after 2½ years if you sell the rights to the remaining cash flows? Assume interest rates remain constant.

(6 marks)

Continued...

ii. What is the duration of these cash flows?

(3 marks)

iii. Immediately after buying these cash flows, all market interest rates increase to 11%. What is the impact on your total wealth after 2½ years?

(6 marks)

QUESTION 4 (25 MARKS)

Compute the required monthly payment on a RM400,000, 25-year fixed-rate mortgage with a nominal interest rate of 6.80%. How much of the payment goes toward principal and interest during the first year?

(25 marks)

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